

**COUNTY OF SAN BERNARDINO  
SPECIAL DISTRICTS  
COUNTY SERVICE AREA No. 70  
ZONE S-7 - LENWOOD SEWER  
IMPROVEMENTS PROJECT**

**REPORT ON AUDIT**

**JUNE 30, 2006**

**County of San Bernardino Special Districts  
County Service Area No. 70  
Zone S-7 - Lenwood Sewer Improvements Project  
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County of San Bernardino  
County of San Bernardino Special  
District County Service Area  
Zone S-7 - Lenwood Sewer  
Improvement Project

### **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area Zone S-7 - Lenwood Sewer (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2006, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the State Controller's Minimum Audit Requirement for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area Zone S-7 - Lenwood Sewer, as of June 30, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

The budgetary comparison information on page 22 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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The County of San Bernardino Special District County Service Area Zone S-7 - Lenwood Sewer has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

*Rogers, Amberson, Mobley & Scott, LLP*

September 15, 2006

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvement Project**  
**Statement of Net Assets**  
**June 30, 2006**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 217,334	\$ 455,474	\$ 672,808
Interest receivable	3,105	3,907	7,012
Capital assets	6,499,177	-	6,499,177
Total Assets	6,719,616	459,381	7,178,997
<b>LIABILITIES</b>			
Accounts payable	29,124	-	29,124
Long-term liabilities:			
Due in one year	21,600	-	21,600
Due in more than one year	2,096,500	-	2,096,500
Total Liabilities	2,147,224	-	2,147,224
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	4,381,077	-	4,381,077
Unrestricted	191,315	459,381	650,696
Total Net Assets	\$ 4,572,392	\$ 459,381	\$ 5,031,773

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvement Project**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2006**

	Governmental Activities	Business-type Activities	Total
<b>EXPENSES</b>			
Professional services	\$ -	\$ 15,537	\$ 15,537
Interest	184,943	-	184,943
Other	2,505	-	2,505
Total Program Expenses	187,448	15,537	202,985
<b>PROGRAM REVENUES</b>			
Charges for services	121,957	-	121,957
Net Program Expense	(65,491)	(15,537)	(81,028)
<b>GENERAL REVENUES</b>			
Property taxes	2,425	-	2,425
Service fees	16,725	-	16,725
Federal assistance	860,009	473,776	1,333,785
Investment earnings	12,846	10,827	23,673
Other	-	1,764	1,764
<b>TRANSFERS – INTERNAL ACTIVITIES</b>	363,276	(363,276)	-
Total General Revenues and Transfers	1,255,281	123,091	1,378,372
Change in Net Assets	1,189,790	107,554	1,297,344
<b>Net Assets - beginning</b>	3,382,602	351,827	3,734,429
<b>Net Assets - ending</b>	\$ 4,572,392	\$ 459,381	\$ 5,031,773

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvement Project**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2006**

	SPECIAL REVENUE FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUND	Total Governmental Funds
	Sewer (SNJ)	AD 01-01 Redemption (RNJ)	AD 2001-01 Collection (SNK)	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 122,660	\$ 86,817	\$ 7,857	\$ 217,334
Interest receivable	2,425	605	75	3,105
<b>Total Assets</b>	<u>\$ 125,085</u>	<u>\$ 87,422</u>	<u>\$ 7,932</u>	<u>\$ 220,439</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities	\$ -	\$ -	\$ -	\$ -
<b>Fund Balances:</b>				
Reserved for:				
Encumbrances	258,590	-	-	258,590
Unreserved:				
Undesignated (deficit)	(133,505)	87,422	7,932	(38,151)
<b>Total Fund Balances</b>	<u>125,085</u>	<u>87,422</u>	<u>7,932</u>	<u>220,439</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 125,085</u>	<u>\$ 87,422</u>	<u>\$ 7,932</u>	

Amounts reported for *governmental activities* in the statement of net assets  
(Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:	6,499,177
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Bonds payable	(2,118,100)
Accrued interest payable	(29,124)
<b>Net Assets of Governmental Activities</b>	<u>\$ 4,572,392</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvement Project**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2006**

	SPECIAL REVENUE FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUND	
	Sewer (SNJ)	AD 01-01 Redemption (RNJ)	AD 2001-01 Collection (SNK)	Total Governmental Funds
<b>REVENUES</b>				
Property taxes	\$ -	\$ 2,425	\$ -	\$ 2,425
Service fees	16,725	-	-	16,725
Special assessments	-	121,957	-	121,957
Federal assistance	860,009	-	-	860,009
Investment earnings	10,071	2,775	-	12,846
Total Revenues	886,805	127,157	-	1,013,962
<b>EXPENDITURES</b>				
Service and supplies	-	-	2,505	2,505
Debt service:				
Interest	-	155,819	-	155,819
Capital outlay:				
Improvements to land	1,308,150	-	-	1,308,150
Total Expenditures	1,308,150	155,819	2,505	1,466,474
Excess of Revenues Over (Under) Expenditures	(421,345)	(28,662)	(2,505)	(452,512)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	2,651,492	11,200	-	2,662,692
Transfers out	-	(2,246,900)	(52,516)	(2,299,416)
Proceeds from long term debt	-	2,118,100	-	2,118,100
Total Other Financing Sources (uses)	2,651,492	(117,600)	(52,516)	2,481,376
Net Change in Fund Balances	2,230,147	(146,262)	(55,021)	2,028,864
<b>Fund Balances - beginning</b>	(2,105,062)	233,684	62,953	(1,808,425)
<b>Fund Balances - ending</b>	\$ 125,085	\$ 87,422	\$ 7,932	\$ 220,439

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvement Project  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances of Governmental Funds to the  
Statement of Activities  
For the Year Ended June 30, 2006**

Net Change in Fund Balances - Total Governmental Funds	\$ 2,028,864
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$1,308,150) exceeded depreciation expense (\$-0-) in the current period.	1,308,150
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal long-term debt consumes the current resources financial resources of governmental funds. Neither transaction, however, has an effect on net assets.	
Bond proceeds	(2,118,100)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued interest paid on the bonds payable	(29,124)
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Change in Net Assets of Governmental Activities	\$ 1,189,790
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The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvement Project**  
**Statement of Net Assets**  
**Proprietary Fund**  
**June 30, 2006**

	ENTERPRISE FUND
	Sewer
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 455,474
Interest receivable	3,907
Total Current Assets	<u>459,381</u>
<b>LIABILITIES</b>	<u>-</u>
<b>NET ASSETS</b>	
Unrestricted	<u>459,381</u>
Total Net Assets	<u><u>\$ 459,381</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvement Project**  
**Statement of Revenues, Expenses, and Change in Net Assets**  
**Proprietary Fund**  
**For the Year Ended June 30, 2006**

	ENTERPRISE FUND
	Sewer
<b>OPERATING REVENUES</b>	\$ -
<b>OPERATING EXPENSES</b>	
Professional fees	15,537
Total Operating Expenses	15,537
Operating (Loss)	(15,537)
<b>NONOPERATING REVENUES</b>	
Federal assistance	473,776
Investment earnings	10,827
Other	1,764
Total Nonoperating Revenues	486,367
Income Before Transfers	470,830
<b>TRANSFERS OUT</b>	(363,276)
Change in Net Assets	107,554
<b>Net Assets – beginning</b>	351,827
<b>Net Assets – ending</b>	\$ 459,381

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvement Project**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the Year Ended June 30, 2006**

	<u>ENTERPRISE FUND</u>
	<u>Sewer</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Payments to suppliers	\$ (15,537)
Net Cash (Used for) Operating Activities	<u>(15,537)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATING FINANCING ACTIVITIES</b>	
Federal Assistance	953,122
Transfer to other funds	<u>(1,159,784)</u>
Net Cash (Used for) Capital and Related Financing Activities	<u>(206,662)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment earnings	9,165
Other nonoperating income	<u>1,764</u>
Net Cash Provided by Investing Activities	<u>10,929</u>
Net Decrease in Cash and Cash Equivalents	(211,270)
<b>Cash and Cash Equivalents – beginning of the year</b>	<u>666,744</u>
<b>Cash and Cash Equivalents – end of the year</b>	<u><u>\$ 455,474</u></u>
<b>Reconciliation of operating (loss) to net cash (used for) operating activities:</b>	
Operating (loss)	\$ (15,537)
Adjustments to reconcile operating (loss) to net cash (used for) operating activities:	
Change in assets and liabilities:	
None	-
Net Cash (Used for) Operating Activities	<u><u>\$ (15,537)</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvement Project**  
**Notes to Financial Statements**  
**June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting entity**

The County Service Area (CSA) No. 70 Zone S-7 - Lenwood Sewer Improvements Project was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on December 19, 1977 with the active power of sewer services to the community of Lenwood.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No 70 - Zone S-7 - Lenwood Sewer Improvement Project of the County of San Bernardino and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2006.

**Government-wide and fund financial statements**

The government-wide financial statements (e.g., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvement Project**  
**Notes to Financial Statements**  
**June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as federal and state grants, the County expanded its definition of "available" to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The CSA reports the following major governmental funds:

The *special revenue fund* labeled "Sewer" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *debt service fund* labeled "AD 01-01 Redemption" accounts for the collection of property owner approved assessments to pay debt service.

The government reports the following major proprietary fund:

The *enterprise fund* labeled "Sewer" accounts for the activities of the government's sewer services.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvement Project**  
**Notes to Financial Statements**  
**June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Deposits and investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (e.g., the current portion of interfund loans) or "advances to/from other funds" (e.g., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All receivables are shown net of an allowance for uncollectibles when applicable.

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvement Project**  
**Notes to Financial Statements**  
**June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Capital assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend asset life is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Improvements to Land	20 - 45
Equipment	6 - 15

**Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Stewardship, compliance and accountability**

**A. Budgetary information**

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the CSA prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvement Project**  
**Notes to Financial Statements**  
**June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special CSA's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2006.

See the County of San Bernardino's Comprehensive Annual Financial Report (CAFR) for details of their investment policy and disclosures related to investment credit risk, concentration of credit risk, interest rate risk and custodial credit risk, as required by GASB Statement No. 40.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvement Project**  
**Notes to Financial Statements**  
**June 30, 2006**

**NOTE 3: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Construction in progress	\$ 5,191,027	\$ 1,308,150	\$ -	\$ 6,499,177
Total capital assets, not being depreciated	<u>\$ 5,191,027</u>	<u>\$ 1,308,150</u>	<u>\$ -</u>	<u>\$ 6,499,177</u>

**NOTE 4: RETIREMENT PLAN**

**Plan description**

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (the MDAQMD) and the South Coast Air Quality Management District (the AQMD), were later included, along with the County of San Bernardino (the County), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3<sup>rd</sup> floor, San Bernardino, California 92415-0014.

**Fiduciary responsibility**

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2006.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvement Project**  
**Notes to Financial Statements**  
**June 30, 2006**

NOTE 4: RETIREMENT PLAN (continued)

**Funding policy**

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.89% - 12.65% for general members and 10.85% - 14.77% for safety members, of their annual covered salary of which the County pays approximately 7%. County of San Bernardino employer contribution rates are as follow: County General 10.8%, County Safety 23.84%. All employers combined are required to contribute 13.01% of the current year covered payroll. For 2006, the County's annual pension cost of \$166,614,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

The County's annual pension cost and prepaid asset, computed in accordance with GASB 27, *Accounting for Pensions by State and Local Governmental Employers*, for the year ended June 30, 2006, were as follows (in thousands):

Annual Required Contribution (County fiscal year basis)	\$ 166,614
Interest on Pension Assets	(34,207)
Adjustment to the Annual Required Contribution	40,156
Annual Pension Cost	172,563
Annual Contributions Made	166,614
Increase/(Decrease) in Pension Assets	(5,949)
Pension Assets, Beginning of Year	844,882
Pension Assets, End of Year	\$ 838,933

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

Year Ended June 30,	Annual Contributions Made (in thousands)		Percentage Contributed
	SBCERA	County	
2004	\$ 652,325	\$ 540,106	100%
2005	\$ 161,906	\$ 141,450	100%
2006	\$ 197,343	\$ 166,614	100%

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvement Project**  
**Notes to Financial Statements**  
**June 30, 2006**

**NOTE 4: RETIREMENT PLAN (continued)**

The County, along with the AQMD, issued Pension Refunding Bonds (the Bonds) in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2006 is \$439,879,000.

On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in a respective aggregate principal amounts of \$189,070,000, \$149,825,000 and \$125,000,000. The Bonds were issued to finance the County's share of the unfunded accrued actuarial liability of the SBCERA. The current amount outstanding at June 30, 2006 is \$461,665,000.

**NOTE 5: FEDERAL AND STATE GRANTS**

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

**NOTE 6: RISK MANAGEMENT**

The CSA is insured through the County's self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to \$1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$25 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers' compensation claims are self-insured up to \$2 million per occurrence, and covered by CSAC EIA for up to \$10 million for employer's liability, and up to \$50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25,000 deductible, and insured with CSAC EIA Property Program.

The County supplements its self-insurance for medical malpractice claims with CSAC EIA, which provides annual coverage on a claim made form basis with a SIR of \$1 million for each claim. Maximum coverage under the policy is \$11.5 million per claim with an additional \$10 million in limits provided by the CSAC EIA General Liability II Program.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvement Project**  
**Notes to Financial Statements**  
**June 30, 2006**

**NOTE 6: RISK MANAGEMENT (continued)**

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a \$100,000 deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in the County's Risk Management Fund (an Internal Service Fund) except for unemployment insurance, and employee dental insurance, which are accounted for in the County's General Fund. The IBNR and IBNS liabilities stated on the Risk Management Fund's balance sheet are based upon the results of actuarial studies, and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 4.25%. It is the County's practice to obtain actuarial studies on an annual basis.

The County has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation, and medical malpractice programs. The County's investment in the agreement totaled \$47.7 million at June 30, 2006.

The total claims liability of \$127.2 million reported at June 30, 2006 is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2005 and 2006 were:

<b>Fiscal Year</b>	<b>Beginning of Fiscal Year Liability (in thousands)</b>	<b>Current Year Claims and Changes in Estimates (in thousands)</b>	<b>Claims Payments (in thousands)</b>	<b>End of Fiscal Year Liability (in thousands)</b>
2004 - 05	\$ 101,709	\$ 44,309	\$ (30,304)	\$ 115,714
2005 - 06	\$ 115,714	\$ 46,926	\$ (35,407)	\$ 127,233

**NOTE 7: LONG-TERM DEBT**

**1915 Limited Obligation Improvements Bonds**

*Series A*

During the current fiscal year, the County of San Bernardino, acting on behalf of the District, issued 1915 Limited Obligation Improvement Bonds, Series A, in the amount of \$1,927,500. Interest on the bonds is payable at the rate of 4.125% per annum, payable semiannually on March 2 and September 2 each year beginning March 2, 2006. Principal payments are payable September 2 of each year beginning September 2, 2006.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvement Project**  
**Notes to Financial Statements**  
**June 30, 2006**

**NOTE 7: LONG-TERM DEBT (continued)**

*Series B*

During the current fiscal year, the County of San Bernardino, acting on behalf of the District, issued 1915 Limited Obligation Improvement Bonds, Series A, in the amount of \$190,600. Interest on the bonds is payable at the rate of 4.125% per annum, payable semiannually on March 2 and September 2 each year beginning March 2, 2006. Principal payments are payable September 2 of each year beginning September 2, 2006.

**Bonds payable**

The following is a schedule of debt service requirements to maturity as of June 30, 2006 for the District's bonds payable:

Years ending June 30,	1915 Series A and B	
	Principal	Interest
2007	\$ 21,600	\$ 87,372
2008	22,500	86,481
2009	23,500	85,553
2010	24,400	84,583
2011	25,500	83,577
2012-2016	143,800	401,235
2017-2021	176,000	369,035
2022-2026	215,500	329,600
2027-2031	263,700	281,337
2032-2036	322,900	222,263
2037-2041	395,100	149,952
2042-2046	483,600	61,467
Total payments	<u>\$ 2,118,100</u>	<u>\$ 2,242,455</u>

**Change in long-term liabilities**

Long-term liability activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
Series A	\$ -	\$ 1,927,500	\$ -	\$ 1,927,500	\$ 19,700
Series B	-	190,600	-	190,600	1,900
Total Bond Payable	<u>\$ -</u>	<u>\$ 2,118,100</u>	<u>\$ -</u>	<u>\$ 2,118,100</u>	<u>\$ 21,600</u>

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvement Project**  
**Notes to Financial Statements**  
**June 30, 2006**

**NOTE 8: TRANSFERS IN/OUT**

Interfund transfers are transactions used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital projects funds. At June 30, 2006, the CSA made the following interfund transfers in and out:

Transfers in:			
	Governmental Fund - Sewer (SNJ)	AD 01-01 Redemption (RNJ)	Total
<u>Transfers out:</u>			
Enterprise Fund - Sewer	\$ 363,276	\$ -	\$ 363,276
AD 2001-01 Collection	41,316	11,200	52,516
AD 01-01 Redemption	2,246,900	-	2,246,900
	<u>\$ 2,651,492</u>	<u>\$ 11,200</u>	<u>\$ 2,662,692</u>

**NOTE 9: CONTINGENCIES**

As of June 30, 2006, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvement Project**  
**Budgetary Comparison Schedule**  
**Special Revenue Fund (Sewer)**  
**For the Year Ended June 30, 2006**

SPECIAL REVENUE FUND				
Sewer (SNJ)				
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Service fees	\$ -	\$ -	\$ 16,725	\$ 16,725
Federal assistance	-	-	860,009	860,009
Investment earnings	-	-	10,071	10,071
Total Revenues	-	-	886,805	886,805
<b>EXPENDITURES</b>				
Capital outlay:				
Improvements to land	596,641	596,641	1,308,150	(711,509)
Total Expenditures	596,641	596,641	1,308,150	(711,509)
Excess of Revenues Over (Under) Expenditures	(596,641)	(596,641)	(421,345)	175,296
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	2,651,492	2,651,492
Transfers out	(146,899)	(146,899)	-	146,899
Total Other Financing Sources (Uses)	(146,899)	(146,899)	2,651,492	2,798,391
Net Change in Fund Balance	<u>\$ (743,540)</u>	<u>\$ (743,540)</u>	2,230,147	<u>\$ 2,973,687</u>
<b>Fund Balance - beginning</b>			(2,105,062)	
<b>Fund Balance - ending</b>			<u>\$ 125,085</u>	